

HOWARD DOWNING
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Nicholasville, Kentucky 40356
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June 5, 2008

RECEIVED
JUN 05 2008
PUBLIC SERVICE
COMMISSION

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

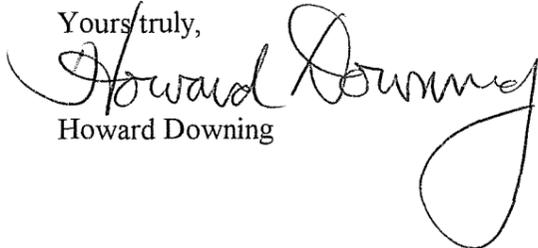
Re: PSC Case No. 2008-00011
Blue Grass Energy Cooperative Corporation

Dear Ms. Stumbo:

Please file in case No. 2008-00011 the original and seven (7) copies of "Applicants Response to Second Data Request of Commission Staff". This relates to the application for adjustment of rates by Blue Grass Energy Cooperative Corporation.

Contact me at (859) 885-4619 or J. Donald Smothers at (859) 885-2118 if there are any questions.

Thanks for your assistance in this matter.

Yours truly,

Howard Downing

Enclosure:
HD/pb

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 05 2008

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF BLUE GRASS ENERGY)
COOPERATIVE CORPORATION FOR) Case No. 2008-00011
AN ADJUSTMENT OF RATES)

APPLICANT'S RESPONSES TO
SECOND DATA REQUEST OF COMMISSION STAFF

The applicant, Blue Grass Energy Cooperative Corporation, makes the following responses to the "Second Data Request of Commission Staff", as follows:

1. The witnesses who are prepared to answer questions concerning each request are J. Donald Smothers and Jim Adkins.

2. J. Donald Smothers, Vice - President of Blue Grass Energy Cooperative Corporation is the person supervising the preparation of the responses on behalf of the applicant.

3. The responses and Exhibits are attached hereto and incorporated by reference herein

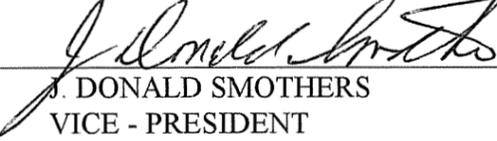

HOWARD DOWNING
109 South First Street
Nicholasville, KY 40356
Attorney for Blue Grass Energy
Cooperative Corporation
Telephone: 859-885-4619

The undersigned, J. Donald Smothers as Vice President of Blue Grass Energy Cooperative Corporation, being first duly sworn, states that the responses herein are true and accurate to the best

of my knowledge, information and belief formed after a reasonable inquiry.

Dated: June 5, 2008.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

By: 
J. DONALD SMOTHERS
VICE - PRESIDENT

Subscribed, sworn to and acknowledged before me by J. Donald Smothers, as Vice -
President by Blue Grass Energy Cooperative Corporation on behalf of said Corporation this 5th day
of June, 2008.


NOTARY PUBLIC, KENTUCKY STATE AT LARGE
My Commission Expires: April 1, 2009.

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and Seven Copies

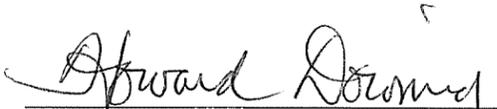
Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Copy

Hon. Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Leigh and Troy Roach
115 Prestwick Drive
Georgetown, KY 40324

This 5th day of June, 2008.



ATTORNEY FOR BLUE GRASS ENERGY
COOPERATIVE CORPORATION

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

RATE DIFFERENCES

- Q. Refer to Exhibit D, page 1, of the application, which shows a proposed energy charge for commercial and industrial customers using 0-100 kW of \$0.07144. However, on Exhibit F, page 4 and Exhibit J, pages 30 and 55, the charge is shown as \$0.07148. Explain the discrepancy and state which charge is being proposed.
- R. The proper rate is the commercial and industrial customers using 0-100 kW is \$0.07148. The reason for this discrepancy is that an incorrect amount was recorded somewhere in the development of this rate application and was not discovered during the review process prior to its filing.

Blue Grass Energy
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Second Data Request of Commission Staff

2. Blue Grass's current tariff rate schedules for which no revenues are shown on Exhibit G. State whether any customers were served in the test year on any of the schedules listed below.
 - a. Rate GS-3 Residential and Farm Time-of-Day.

No customers were served.
 - b. Large Industrial Rate – Schedule B-1 for the Nicholasville and Madison Districts (The B1, Large Industrial Rate information on line 25 of Exhibit G is for the Fox Creek District).

No customers were served.
 - c. Rate M – Commercial and Industrial Power Service.

No customers were served.
 - d. Interruptible Service Rates.

No customers were served.

Blue Grass Energy
Case No. 2008-00011
Second Data Request of Commission Staff

3. Refer to Exhibit E of the application, pages 23-28 and pages 53-58. Blue Grass proposed to delete the following rate schedules: Large Industrial Rate – Schedule C-1, Large Industrial Rate – Schedule C-2, Large Industrial Rate – Schedule C-3, Schedule C1 – Large Industrial Rate, Schedule C2 – Large Industrial, and Schedule C3 – Large Industrial. No revenues are shown for these schedules on Exhibit G. State whether any customers were served in the test year on any of these schedules.

No customers were served.

Blue Grass Energy
Case No. 2008-00011
Second Data Request of Commission Staff

4. Refer to Exhibit H-1, page 5 of 9, of the application.
 - a. Explain whether Blue Grass has been able to receive advances on the "E44" loan referenced in the letter addressed to Jody Hughes, Blue Grass's chairman, from James M. Andrew of the Rural Utilities Service.

Yes, we received \$12,000,000 in April 2008.

Blue Grass Energy
Case No. 2008-00011
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5. Refer to Exhibit H-1 Page 7 of 9, of the application. This March 19, letter from J. Donald Smothers to Brian D. Jenkins of RUS includes projected financial ratios for Blue Grass for Calendar year 2008. Provide the Calculations and supporting assumptions showing how each of the four ratios was derived.

Projected ratios for 2008:

TIER: 1.25

| | |
|------------------------------|-------------|
| Estimated Long Term Interest | \$5,700,000 |
| Capital Credits Cash Rec. | \$ 150,000 |
| Estimated Total Margins | \$1,300,000 |

Long Term Interest + Capital Credits Cash Received + Total Margins divided by Long Term Interest

OTIER: 1.17

| | |
|------------------------------|-------------|
| Estimated Long Term Interest | \$5,700,000 |
| Capital Credits Cash Rec. | \$ 150,000 |
| Estimated Operating Margins | \$ 750,000 |

Long Term Interest + Capital Credits Cash Received + Operating Margins divided by Long Term Interest.

DSC: 1.25

| | |
|------------------------------|-------------|
| Estimated Total Margins | \$1,300,000 |
| Capital Credits Cash Rec. | \$ 150,000 |
| Estimated Depreciation | \$6,200,000 |
| Estimated Long Term Interest | \$5,700,000 |
| Estimated Principal Payments | \$5,000,000 |

Total Margins + Capital Credits Cash Received + Depreciation + long Term Interest divided by Long Term Interest + Principal Payments

ODSC: 1.17

| | |
|------------------------------|-------------|
| Estimated Operating Margins | \$ 750,000 |
| Capital Credits Cash Rec. | \$ 150,000 |
| Estimated Depreciation | \$6,200,000 |
| Estimated Long Term Interest | \$5,700,000 |
| Estimated Principal Payments | \$5,000,000 |

Total Margins + Capital Credits Cash Received + Depreciation + long Term Interest divided by Long Term Interest + Principal Payments

Blue Grass Energy
Case No. 2008-00011
Second Data Request of Commission Staff

6. Refer to Exhibit H-2, page 2 of 3, of the application. This table, included in the Testimony of J. Donald Smothers, shows that, for the three calendar years prior to the proposed 2007 test year, Blue Grass's Times Interest Earned Ratio averaged 1.30, only .05 above RUS's minimum requirement. The table also shows that Blue Grass's TIER for the test year, calendar year 2007, was only .03.

a. Explain in detail why Blue Grass did not seek rate relief at an earlier point in time than the April 2008 filing of its pending application.

Since EKPC had filed a rate increase in early 2007 and with the continued increase in the Fuel Adjustment and Environmental Surcharge we decided to wait to try to minimize rate shock to our members.

b. Based on its past results and projected TIER for 2008, as shown in Exhibit H-1, page 7 of 9, does Blue Grass expect to be in technical default of its RUS mortgage requirements after calendar year 2008?

No assuming the rate increase of 2.00 TIER is approved as filed.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

CLARIFICATION RATE CLASS CONSOLIDATION

- Q. Refer to Exhibit H-3, page 4, which includes a list of rate classes that Blue Grass is proposing to combine.
- a. In Item No. 3, explain whether Rate M should also be listed as being combined into the new LP-1.
- R. a. Schedule M has been combined into the new LP-1.
- Q. b. Explain whether the list should include schedules C-1, Schedule C and Rate 2 are being combined in to new SC-1.
- R. b. Schedules C-1, C and Rate 2 are being combined into one rate schedule SC-1.
- Q. c. Explain whether the list should show that current schedules B1 and B-1 rates are being combined into the new B-1.
- R. c. These two schedules are being combined into. Schedule B-1 is the only one of these two rate schedules that had customers billed on it.
- Q. d. Refer to Exhibit H-3, page 6, line 138. Clarify whether the column titles are reversed (i.e., should the second column be titled "Old Size" and the third column be titled "New Size").
- R. d. These titles are reversed.

RESPONSE TO COMMISSION'S STAFF SECOND DATA REQUEST

ELECTRONIC COPIES OF EXHIBITS I, J AND R

- Q. Provide copies of Exhibits I, J and R electronically on CD-ROM in Microsoft Excel 1997-2003 format with all formulas intact and unprotected.

- R. Enclosed is a copy of Exhibits I, J and R in electronic form. The CD with these exhibits has been placed in the pocket in a secure manner of the original filing for the Commission and for the filing with the Office of the Attorney General .

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

SMALL COMMERCIAL DEMAND 10 KW AND LESS

- Q. Refer to Exhibit J, page 14. When calculating the proposed revenue, explain why this schedule does not show the demand charge broken down between the first 10 kW of billing demand and the billing demand in excess of 10 kW. If a revision is required, file revised versions of all affected schedules.
- R. This schedule excluded the first 10 kW because the first 10 kW is not billed demand. It most probably should have been included just for clarity if for no other reason. The kW amount below for the Harrison District would be 5,469 kW.

A revised Exhibit J is contained in CD attached to these responses.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

EXCESS DEMAND CHARGE FOR SCHEDULE LPR-2

- Q Refer to Exhibit J, page 23. When calculating the proposed revenue, explain why this schedule does not show demand in excess of contract demand. If a revision is required, file the revised versions of all affected schedules.
- R. This rate schedule *does not* contain an excess demand component as applied during the test year. Blue Grass is proposing that the new schedule applicable to this current schedule contain an excess demand component.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

175 WATT MERCURY VAPOR LIGHTS

- Q. Refer to Exhibit J, page 35. For the first Mercury Vapor 175 W, explain why there is no normalized or proposed revenue although billing determinants and test year revenues are shown for this item. If a revision is required, file revised versions of all affected schedules.

- R. These 175 W lights were in existence at the beginning of the test year but were removed from service during the test year. As referenced in the billing analysis, a small amount of revenue was received from these lights during the test year of \$1,123

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

BILLING DEMAND FOR SMALL COMMERCIAL CUSTOMERS

Q. Refer to Exhibit J, page 35. Under "Billing Determinants," should the amount shown for the first 10 kW of billing demand be the total of 57,818 from page 12, plus 11,880 from page 13, plus an amount from page 14, depending on Blue Grass's response to Item 9. If no, explain the answer. If a revision is required, file revised versions of all affected schedules.

R. The amount for the first 10 kW should be as follows:

| | |
|--|----------------------|
| Rate C-1 - Madison & Nicholasville Districts | 57,818 |
| Rate C - Fox Creek District | 11,860 |
| Rate 2 - Harrison District | <u>5,469</u> |
| Total kW -10 kW and less | <u><u>75,147</u></u> |

A revised Exhibit J is contained in CD attached to these responses.

Blue Grass Energy Cooperative
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13. Explain whether Blue Grass considered adjusting its miscellaneous charges or CATV attachment charges in this proceeding.

Response

Blue Grass reviewed its miscellaneous charges and CATV attachments and determined they were adequate and did not require change. Blue Grass last increased these charges as of December 31, 2004.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

SMALL COMMERCIAL BILLING UNITS AND REVENUE REQUIREMENTS

- Q. Refer to Exhibit R, page 8.
- a. Explain why 50,972,084 billing units were used to calculate the energy rate that Exhibit J, page 35, and Exhibit R, Schedule 9, page 64, show energy billing units of 51,152,084 for Small Commercial customers
 - b. Explain why the "Revenue Requirement-Rates" total \$4,934,660 does not reconcile to the Revenue Requirements shown for Commercial and Small Power on Exhibit R, page 12 of \$5,674,879.
- R
- a. A difference exists in these amounts because two numbers were transposed in the in the calculation of the total energy kWh billing units.
 - b. The amount of \$5,674,879 listed on page 12 of Exhibit R is the revenue requirements amount based on the COSS to provide a TIER of 2.0X for the Commercial and Small Power rate class. However, Blue Grass did not wish to increase the current rates for these rate classes by the amount needed to get to full revenue requirements.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

SCHEDULE B-2 REVENUE REQUIREMENTS

- Q Refer to Exhibit R, page 9.
- a. Under the "Cost Based Rates" Section, the \$144,170 consumer related is \$142,704 more than that calculated on Exhibit R Schedule 5. The total \$3,208,926 for Demand Related is \$142,704 less than that calculated on Schedule 5. Explain why \$142,704 was shifted from Demand Related to Consumer Related.
 - b. Explain why the \$10,477,906 "Revenue Requirement-Rates" total does not reconcile to the Revenue Requirements shown for Rate B-2 on Exhibit R, page 13, but instead reconciles with the Current Revenue shown for Rate B-2 on page 13.
- R.
- a. The \$144,170 represents the amount of wholesale substation costs allocated to this class. The current philosophy on retail rate design for retail rates based on special wholesale rates such as East Kentucky Power Cooperative's ("EKPC") Wholesale Rate B is to recover this cost as a consumer type cost since the wholesale rate is a flat fee based on the size of a substation.
 - b. It was recommended to Blue Grass that the Revenue Amount from Current Rates be the basis for the revenue requirements used to design rates for this combined rate class. The COSS does provide justification for a lesser amount which would have resulted in lower rates for this rate class but higher rates for some other rate class which would most probably be the Small Commercial rate class.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

RATES FOR SCHEDULE B-1

- Q. Refer to Exhibit R, page 10. Explain why there is no "Cost Based Rates" for Rate B-1 as is provided for the Residential and Small Commercial Power Rates on Exhibit R, pages 8 and 9.

- R. No changes in rate design is being sought for Schedule B-1 since this is providing revenue in amounts greater than the revenue requirements derived from the COSS.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

COST OF SERVICE FOR RATE SCHEDULE LP-1

- Q. Refer to Exhibit R, page 11. For Rate LP-1, the Consumer Related total of \$127,221 is \$52,606 more than that calculated in Schedule 5 of Exhibit R. The Demand Related total of \$1,114,779 is also \$52,606 less than that calculated in Schedule 5. Explain why \$52,606 was shifted from Demand Related to Consumer Related.
- R. The amount of \$52,606 represents the allocated wholesale substation costs to this rate class. Since most industry is located relatively close to a distribution substation and with the wholesale substation rate being a flat fee, it has been determined to include these costs as a part of the basis for the calculation of the consumer charge. Since the wholesale substation rate is paid even with no energy or demand usage, it seems appropriate to include the costs in a similar type retail rate

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

REVENUE REQUIREMENTS - RATE SCHEDULES LP-1 AND LP-2

- Q. Refer to Exhibit R, page 11.
- a. For Rate LP-2, the \$69,718 Consumer Related total is \$64,058 greater than that calculated on Schedule 5 of Exhibit R. The Demand Related total of \$1,080,183 is also \$64,058 less than that calculated in Schedule 5. Explain why \$64,058 was shifted from Demand Related to Consumer Related.
 - b. Explain the origin of the "Revenue from Rates" of \$3,957,880 for LP-1 and \$4,871,801 for LP-2 and how these amounts were allocated between energy costs, consumer costs, and demand costs for the 3rd, 4th, and 5th sections of this page.
- R.
- a. The \$64,058 difference represents the allocated wholesale power substation costs to this combined rate class. Page 13, Exhibit R, provides this amount. Since most consumers in this class are located relatively close to a distribution substation and with the wholesale substation rate being a flat fee, it is appropriate to include these costs as a part of the basis for the calculation of the consumer charge.
 - b. The "Revenue from Rates" originally represented the actual revenue from rates for the combined rate classes. However, in the consolidation of three different rate classes and the development of rates for the new class, it was determined to increase the revenue requirements for this class by 1.7%. This 1.7% increase provides the amounts of \$3,957,880 for LP-1 and \$4,871,801 for LP-2. The label "Revenue from Rates" should have been changed to a more appropriate title.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Q. Refer to Exhibit R

- a. On page 53, for Accounts 580,582-584, 588, 590, 592, 593 and 598, provide the location in the cost of service study where the allocation factors were derived, as well as an explanation of the rationale.

R. a. For Accounts 580, 582-584, 588, 590, 592, 593 and 598 are based on the following rationale.

Test Year Adjusted Expenses

The adjusted test year expenses are allocation proportionally on the basis of the actual expenses for the test year. The adjusted test year expenses accounts numbered from 580 through 589 are proportional on the actual test year expenses for distribution operations. The adjusted test year expenses for accounts numbered fro 590 through 598 are proportional on the actual test year expenses for distribution maintenance.

Classification of Adjusted Test Year Expenses

Accounts 582, 583, 584, 592, 593, and 594:

1. Allocated to the functions "Lines" and "Services" on the basis of the Total Distribution Plant Line from Net Investment Rate Base in Schedule 6 on Page 59, Exhibit R.
2. The "Lines" expenses are then classified as either a demand related component or a consumer related component based the combined pole and overhead conductor percentages from page 61 of this Exhibit R. The percentage of lines considered to be demand related is 63.02% while 36.98% is considered to be consumer related.

Accounts 580 and 588

1. Allocated to the functions proportional to the expenses assigned to all other accounts numbered from 582 through 587 for distribution operations.
2. The "Lines" expenses are then classified as either a demand related component or a consumer related component based the combined pole and overhead conductor percentages from page 61 of this Exhibit R. The percentage of lines considered to be demand related is 63.02% while 36.98% is considered to be consumer related.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Accounts 590 and 598

1. Allocated to the functions proportional to the expenses assigned to all other accounts numbered from 592 through 597 for distribution maintenance..

2. The "Lines" expenses are then classified as either a demand related component or a consumer related component based the combined pole and overhead conductor percentages from page 61 of this Exhibit R. The percentage of lines considered to be demand related is 63.02% while 36.98% is considered to be consumer related.

Q. b. On pages 55-56, the summations in the line entitled "Total of Above" do not seem to be correct for the columns Lines Demand, Lines Customer, Services Consumer, Meters Consumer and Street Lighting. Explain the apparent discrepancy.

R. b. Listed below is the accounts, the functions and amounts from pages 55-56.

| | Lines | | Services | Meters | Street |
|-----------------------------|------------------|------------------|------------------|------------------|-----------------|
| | <u>Demand</u> | <u>Customer</u> | <u>Consumer</u> | <u>Consumer</u> | <u>Lighting</u> |
| Total Operations | 749,378 | 439,707 | 303,411 | 1,044,261 | 27,479 |
| Total Distribut Maintenance | 2,132,177 | 1,251,082 | 863,285 | 32,669 | 88,442 |
| Total Consumer Accounts | - | - | - | - | - |
| Total Customer Service | - | - | - | - | - |
| | <u>2,881,554</u> | <u>1,690,789</u> | <u>1,166,697</u> | <u>1,076,930</u> | <u>115,921</u> |

Listed below is the "Total of Above" per pages 55 and 56 of Exhibit R:

| | | | | | |
|----------------|------------------|------------------|------------------|------------------|----------------|
| Total of Above | <u>2,881,554</u> | <u>1,690,789</u> | <u>1,166,697</u> | <u>1,076,930</u> | <u>115,921</u> |
|----------------|------------------|------------------|------------------|------------------|----------------|

Based on the above information taken from pages 55 and 56 of Exhibit R, the apparent discrepancy has not been found.

Q. c. On page 55, the allocation factor for the line Total Admin & General does not seem to match the Distribution Plant allocation factor derived in Schedule 7. Explain this apparent discrepancy.

R. c. The line for Total Admin & General does not match the Distribution Plant allocation factor from Schedule 7 as it allocated on a different basis and the proper notation was not placed in the appropriate cell. The basis for allocating the "Administrative and General expenses was the line in Schedule 6 identified as "Total of Above".

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Q. d. On pages 57-58, provide the location and derivation of the rate base allocator.

R. d. The rate base allocator is provided on page 59 of Exhibit R. It is also identified as Schedule 7.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Q. Refer to Exhibit R, page 59.

a. Explain why the allocation factors for Accounts 364 and 365 do not match the allocation factors derived on Schedule 8, pages 60-61.

R a. The allocation factors for Accounts 364 and 365 comes from the combined, weighted allocation factors for Accounts 364 and 365 in Schedule 8 on page 61 of Exhibit R.

The allocation factors are listed below:

| | |
|--------------------------|----------------|
| Consumer Related Percent | 36.98% |
| Demand Related Percent | 63.02% |
| Total | <u>100.00%</u> |

Q. b. Provide the worksheets showing the derivation of the allocation factors for Accounts 362, 364, 365, and 367.

R b. The allocation factors for Accounts 362, 364, 365, and 367 are all based on the combined allocation factor for poles -Account 364 and conductor - Account 365

The allocation factors are listed below:

| | |
|--------------------------|----------------|
| Consumer Related Percent | 36.98% |
| Demand Related Percent | 63.02% |
| Total | <u>100.00%</u> |

Q. c. Provide the worksheets showing the derivation of the allocation factor for CWIP.

R c. CWIP has been allocated proportional on the basis of Distribution Plant.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

Q. Refer to Exhibit R, page 60, line 14. Provide a breakdown of Account 364 - Poles and identify the items, aside from poles, that are included in this account.

R. Listed below is the additional breakdown of Account 364.

| | |
|---------------------|-----------|
| anchors | 8,847,280 |
| cross arms | 4,029,233 |
| cluster mount | 154,247 |
| BI Unit | 71,931 |
| Platforms | 69,523 |
| C-TA-05 | 2,721 |
| C-DE-2A | 35,794 |
| C-BAS | 41,664 |
| C-DE-1 | 35,555 |
| CA1160-CA1161 | 13,175 |
| Anchor Guy-Harrison | 3,631,352 |

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, page 61.
- a. Explain whether 2 ACSR is the minimum size overhead conductor that is currently being purchased and installed by Blue Grass.
- R. a. 2 ACSR is the minimum size overhead conductor that is currently being installed and purchased as Blue Grass.
- Q. b. Explain why 4 ACSR is no longer being purchased and installed.
- R. b. 4 ACSR is no longer being purchased and installed due to the fact that Blue Grass has experienced a significant amount of deterioration of the steel in 4 ACSR on our system. The 2 ACSR on our system has not exhibited the deterioration like the 4 ACSR has.
- Q. c. Provide a breakdown of Account 365 - Overhead Conductor, line 29 "all other OH Conductor invest." Identify the items aside from overhead conductors, that are included in this account.
- R. c. Listed below is the additional breakdown of Account 365.

| | |
|------------------------------|-----------|
| Lighting arrestors | 866,486 |
| cutouts | 680,233 |
| ground | 4,933,492 |
| insulator string | 5,459,837 |
| combination unit M5-10 | 1,535,022 |
| disconnect switch | 255,152 |
| by pass switch | 50,434 |
| OCR 14/4 | 122,550 |
| OCR 14/4 | 468,237 |
| OCR 3 phase | 418,709 |
| auto booster | 49,377 |
| reclosers and sectionalizers | 324,052 |
| recloser substation | 293,087 |
| regulators | 49,464 |
| combination co & arr | 67,296 |
| 167 kVa 7200 V regulator | 266,470 |
| regulators- Harrison | 53,067 |

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, pages 62-63. Explain which transformers are currently being purchased and installed on Blue Grass's system.
- R. The transformers currently being purchased and installed on the Blue Grass system are listed below:

| | | |
|---------|-------------------|------------------|
| 10 KV | 15 KVA CSP | 1500 KVA 3-PHASE |
| 15 KVA | 25 KVA CSP | 150 KVA PADMOUNT |
| 25 KVA | 333 STEP DOWN | 100 KVA PADMOUNT |
| 50 KVA | 1000 KVA PADMOUNT | 2500 KVA |
| 75 KVA | 25 KVA PADMOUNT | 500 KVA PADMOUNT |
| 100 KVA | 50 KVA PADMOUNT | 750 KVA 3-PHASE |
| 167 KVA | 75 KVA PADMOUNT | |

RESPONSE TO COMMISSION'S STAFF SECOND DATA REQUEST

- Q. Refer to Exhibit R, page 64
- a. Explain what the numbers represent in the table and how are they used in the cost-of-service study.
- R. a. This table represents the energy billed by Blue Grass during the test year and is used to allocate the purchased power energy related costs.
- Q. b. Explain whether the numbers on page 64 are used to derive the numbers on pages 65-66 and, if so, how.
- R. b. The numbers on page 64 are not used to develop the numbers on pages 65 and 66. The numbers on page 65 are the contribution of the rate classes of Blue Grass to EKPC's coincident peak demands and are used as the basis to allocate the purchased power demand costs to Blue Grass's rate classes. The numbers on page 66 are the class peak demands for each one of Blue Grass's rate classes and are used as the basis to allocate the distribution demand related costs.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, pages 65-66.
- a. For each page explain what the monthly numbers represent, how they were derived, and how they are used in the cost-of-service study.
- R. a. The monthly numbers on page 65 represents each rate class's peak demand at the time of EKPC's coincident peak demand (billing demand) and each class's proportional contribution for the test period multiplied by the total wholesale demand billing for the test period equals the wholesale demand costs assigned to each rate class. This information has been provided by EKPC and is based on its load research activities.
- Q. b. Arrange both pages so that class coincident and non-coincident peaks are discernable including the peaks for each class.
- R. b. Attached is revised pages 64, 65, and 66 which provide all the detail in how the data and information on these pages has been used in the cost of service study.
- Q. c. Provide an explanation of the class coincident and noncoincident peaks for each class were derived.
- R. c. This information was provided by EKPC and has been developed through its load research activities conducted in concert with its sixteen members.

BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-00011
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

REVISED SCHEDULE 9, EXHIBIT R

A. Energy Sales

Allocation is proportional on actual sales to end use customers

| Month | 11 | | 12 | | 13 | | 16 | | 17 | | 18 | | 21, 22 | | 23, 24 | | 25, 26 | | 31 | |
|--------------|--------------------|--------------------|---------------------|----------------|----------------|------------------------|-------------------|----------------------|-----------------------------|--------------------|--------------------|---------------------------------|------------------|--|--------|--|--------|--|----|--|
| | GS-1 Residential | R Residential | A Farm Home Service | GS-2 Off-Peak | R2 Residential | Off-Peak Marketing ETS | Rate 1 Off-Peak | Rate 1 Marketing ETS | C-1 Commercial & Industrial | C Small Commercial | Rate 2 Small Power | Rate 2 Commercial & Small Power | LP-1 Large Power | | | | | | | |
| January | 37,373,974 | 15,800,843 | 17,080,632 | 112,880 | 25,574 | 308,455 | 2,539,095 | 719,024 | 493,140 | 3,484,320 | | | | | | | | | | |
| February | 52,562,255 | 22,844,054 | 25,146,327 | 169,743 | 38,733 | 490,108 | 2,873,233 | 794,145 | 516,952 | 3,549,347 | | | | | | | | | | |
| March | 44,259,909 | 18,125,658 | 19,850,261 | 136,583 | 32,117 | 415,242 | 2,993,555 | 761,630 | 550,764 | 3,583,652 | | | | | | | | | | |
| April | 30,403,971 | 12,975,059 | 14,400,433 | 67,341 | 16,159 | 209,047 | 2,618,998 | 698,393 | 525,970 | 3,438,274 | | | | | | | | | | |
| May | 27,473,211 | 10,960,768 | 11,670,218 | 48,616 | 8,698 | 103,630 | 2,655,255 | 662,237 | 464,622 | 3,350,977 | | | | | | | | | | |
| June | 32,099,705 | 12,581,151 | 13,542,317 | 4,264 | 2,911 | 7,143 | 2,847,027 | 748,606 | 533,218 | 3,740,050 | | | | | | | | | | |
| July | 35,533,559 | 14,100,150 | 14,237,869 | 2,430 | 2,705 | 5,125 | 3,271,141 | 764,802 | 524,134 | 4,163,060 | | | | | | | | | | |
| August | 39,367,071 | 15,858,486 | 16,480,258 | 880 | 3,006 | 5,856 | 3,394,691 | 812,597 | 561,511 | 3,789,126 | | | | | | | | | | |
| September | 41,357,759 | 16,392,005 | 16,759,095 | 953 | 4,820 | 5,932 | 4,142,248 | 909,262 | 603,959 | 4,481,521 | | | | | | | | | | |
| October | 29,921,399 | 12,131,365 | 12,255,484 | 4,077 | 3,627 | 8,585 | 2,704,470 | 785,694 | 528,846 | 3,912,043 | | | | | | | | | | |
| November | 27,643,483 | 11,545,413 | 12,743,567 | 39,031 | 11,993 | 108,833 | 2,904,857 | 722,387 | 504,314 | 3,742,686 | | | | | | | | | | |
| December | 36,565,713 | 15,717,300 | 17,661,931 | 96,708 | 23,597 | 297,353 | 2,788,197 | 725,818 | 507,292 | 3,246,944 | | | | | | | | | | |
| Total | 434,562,009 | 174,838,533 | 191,828,392 | 683,506 | 173,940 | 1,965,309 | 35,732,767 | 9,104,595 | 6,314,722 | 44,482,000 | | | | | | | | | | |

| | | | | | | | | | | |
|-------------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|
| Percent | 35.32% | 14.21% | 15.59% | 0.00% | 0.00% | 0.00% | 2.90% | 0.74% | 0.51% | 3.62% |
| EKPC Rate E | 43.53% | 17.51% | 19.21% | 0.00% | 0.00% | 0.00% | 3.58% | 0.91% | 0.63% | 4.46% |

EKPC Rates B&C

BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-00011
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

REVISED SCHEDULE 9, EXHIBIT R

B. Wholesale Billing CP Contributions

| Month | 11 | | 12 | 13 | | 16 | | 17 | | 18 | 21, 22 | | 23, 24 | | 25, 26 | | 31 |
|-------------|---------------------|---------|---------|---------------------------|------------------|-------------------|--------------------|-------------------|--------------------------|-------|---------------------------------------|------------------------|--------|--------|--------|--|----|
| | GS-1 Residential | R | | A Farm Home Service | GS-2 Off-Peak | R2 Residential | Rate 1 Off-Peak | C-1 Commercial | C Small Commercial | | Rate 2 Commercial & Small Power | LP-1 Large Power | | | | | |
| January | 96,242 | 48,348 | 56,237 | - | - | - | - | - | - | - | 19,966 | 4,942 | 4,928 | 4,928 | 9,925 | | |
| February | 112,433 | 56,352 | 65,637 | - | - | - | - | - | - | - | 19,438 | 4,691 | 4,684 | 4,684 | 9,846 | | |
| March | 78,037 | 38,947 | 45,327 | - | - | - | - | - | - | - | 13,632 | 3,272 | 3,238 | 3,238 | 8,666 | | |
| April | 73,081 | 36,439 | 42,426 | - | - | - | - | - | - | - | 9,117 | 2,235 | 2,392 | 2,392 | 5,685 | | |
| May | 61,300 | 30,546 | 35,582 | - | - | - | - | - | - | - | 15,709 | 3,644 | 3,717 | 3,717 | 6,112 | | |
| June | 63,155 | 31,434 | 36,628 | - | - | - | - | - | - | - | 17,503 | 4,102 | 3,955 | 3,955 | 6,830 | | |
| July | 74,362 | 37,012 | 43,136 | - | - | - | - | - | - | - | 18,002 | 4,167 | 4,072 | 4,072 | 6,526 | | |
| August | 83,448 | 41,540 | 48,378 | - | - | - | - | - | - | - | 20,230 | 4,774 | 4,821 | 4,821 | 8,336 | | |
| September | 73,538 | 36,585 | 42,624 | - | - | - | - | - | - | - | 17,255 | 4,054 | 4,066 | 4,066 | 7,137 | | |
| October | 58,534 | 29,143 | 33,953 | - | - | - | - | - | - | - | 13,696 | 3,227 | 3,035 | 3,035 | 8,239 | | |
| November | 71,127 | 35,417 | 41,243 | - | - | - | - | - | - | - | 13,290 | 3,170 | 2,935 | 2,935 | 8,044 | | |
| December | 87,486 | 43,519 | 50,719 | - | - | - | - | - | - | - | 13,269 | 3,244 | 3,319 | 3,319 | 6,988 | | |
| Total | 932,742 | 465,281 | 541,890 | - | - | - | - | - | - | - | 191,106 | 45,521 | 45,163 | 45,163 | 92,336 | | |
| Percent | 32.85% | 16.39% | 19.09% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 6.73% | 1.60% | 1.59% | 1.59% | 3.25% | | |
| EKPC Rate E | 37.43% | 18.67% | 21.74% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 7.67% | 1.83% | 1.81% | 1.81% | 3.71% | | |

EKPC Rates B&C

Used to allocate wholesale power demand costs to rate classes.

BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-00011
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

REVISED SCHEDULE 9, EXHIBIT R

C. Monthly Peak Demands for Each Rate Class

| Month | 11 GS-1 Residential | | 12 R Residential | 13 A Farm Home Service | | 16 GS-2 Off-Peak Residential | | 17 R2 Residential | | 18 Rate 1 Off-Peak Marketing ETS | | 21, 22 C-1 Commercial & Industrial | | 23, 24 C Small Commercial | | 25, 26 Rate 2 Commercial & Small Power | | 31 LP-1 Large Power | | |
|-----------|---------------------------|-------------|------------------------|---------------------------------|---------------|---------------------------------------|---------------|-------------------------|---------------|---|---------------|---|---------------|------------------------------------|---------------|---|---------------|------------------------------|---------------|---------------|
| | Farm & Non-Farm | Residential | | Residential | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS | Marketing ETS |
| January | 96,242 | 48,348 | 56,237 | 595 | 126 | 1,288 | 19,966 | 4,942 | 4,928 | 10,406 | | | | | | | | | | |
| February | 112,433 | 56,352 | 65,637 | 581 | 119 | 1,330 | 19,553 | 4,753 | 4,684 | 10,073 | | | | | | | | | | |
| March | 78,037 | 38,947 | 45,327 | 588 | 112 | 1,330 | 16,018 | 3,896 | 3,238 | 9,811 | | | | | | | | | | |
| April | 77,027 | 38,407 | 44,718 | 532 | 119 | 1,260 | 15,491 | 3,741 | 2,392 | 9,654 | | | | | | | | | | |
| May | 67,427 | 33,599 | 39,138 | 350 | 91 | 777 | 17,699 | 4,269 | 3,717 | 9,890 | | | | | | | | | | |
| June | 72,374 | 36,022 | 41,975 | 147 | 70 | 301 | 19,629 | 4,773 | 3,955 | 9,569 | | | | | | | | | | |
| July | 76,473 | 38,064 | 44,361 | 105 | 63 | 210 | 20,273 | 4,997 | 4,072 | 9,519 | | | | | | | | | | |
| August | 83,727 | 41,679 | 48,540 | 91 | 70 | 203 | 21,928 | 5,410 | 4,821 | 11,761 | | | | | | | | | | |
| September | 74,508 | 37,068 | 43,186 | 133 | 56 | 287 | 17,963 | 4,430 | 4,066 | 10,662 | | | | | | | | | | |
| October | 59,487 | 29,618 | 34,506 | 413 | 105 | 952 | 17,812 | 4,327 | 3,035 | 9,770 | | | | | | | | | | |
| November | 71,127 | 35,417 | 41,243 | 595 | 140 | 1,379 | 15,499 | 3,710 | 2,935 | 9,950 | | | | | | | | | | |
| December | 98,396 | 48,947 | 57,045 | 651 | 133 | 1,407 | 17,706 | 4,307 | 3,319 | 10,552 | | | | | | | | | | |
| Total | 967,259 | 482,467 | 561,913 | - | - | - | 219,537 | 53,555 | 45,163 | 121,617 | | | | | | | | | | |
| Percent | 37.14% | 18.52% | 21.58% | 0.00% | 0.00% | 0.00% | 8.43% | 2.06% | 1.73% | 4.67% | | | | | | | | | | |
| | 31.87% | 15.90% | 18.52% | 0.00% | 0.00% | 0.00% | 7.23% | 1.76% | 1.49% | 4.01% | | | | | | | | | | |

Used to allocate distribution demand related costs to appropriate rate classes

BLUE GRASS ENERGY COOPERATIVE
CASE NO. 2008-00011
RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

REVISED SCHEDULE 9, EXHIBIT R

B. Wholesale Billing CP Contributions

| L | 33 | 32, 38 LP-2 Large Power | 35, 36 N Industrial & Large Power | 39, 52 Rate 8 Large Power Service | 40 LPR1 Large Power Service | 46 | 4, 45, 47, 48, 4 | B1 Large Industrial Rate | 50 | 51 | 15 |
|---|-------|----------------------------------|--|--|--------------------------------------|--------|------------------|--------------------------------|--------|-------|-----------|
| | | | | | | | | | | | |
| | 674 | 9,080 | 863 | 1,881 | 907 | 2,256 | 16,907 | 2,256 | 4,614 | 207 | 2,199 |
| | 701 | 8,183 | 870 | 1,676 | 908 | 2,368 | 19,316 | 2,368 | 5,162 | 202 | 2,142 |
| | 578 | 8,479 | 1,985 | 1,553 | 879 | 2,430 | 19,534 | 2,430 | 4,562 | 206 | 2,193 |
| | 425 | 8,497 | 1,913 | 1,045 | 803 | 2,370 | 18,365 | 2,370 | 4,787 | 167 | 1,780 |
| | 478 | 9,016 | 1,743 | 1,046 | 811 | 2,680 | 21,124 | 2,680 | 7,292 | - | - |
| | 471 | 8,474 | 1,989 | 1,135 | 850 | 3,008 | 22,509 | 3,008 | 6,199 | - | - |
| | 530 | 9,032 | 1,956 | 1,086 | 855 | 2,928 | 21,696 | 2,928 | 6,916 | - | - |
| | 603 | 10,541 | 2,162 | 1,443 | 1,046 | 3,123 | 19,281 | 3,123 | 7,629 | - | - |
| | 474 | 10,178 | 1,950 | 1,258 | 840 | 2,679 | 23,193 | 2,679 | 6,709 | - | - |
| | 618 | 9,660 | 1,889 | 1,647 | 792 | 2,867 | 21,903 | 2,867 | 6,687 | - | - |
| | 631 | 9,364 | 1,793 | 1,744 | 819 | 2,698 | 18,386 | 2,698 | 5,975 | 189 | 2,007 |
| | 538 | 9,610 | 1,680 | 1,500 | 916 | 2,740 | 20,965 | 2,740 | 5,145 | 151 | 1,601 |
| | 6,720 | 110,114 | 20,794 | 17,014 | 10,427 | 32,146 | 243,182 | 32,146 | 71,677 | 1,122 | 2,839,156 |
| | 0.24% | 3.88% | 0.73% | 0.60% | 0.37% | 1.13% | 8.57% | 1.13% | 2.52% | 0.04% | 100.0% |
| | 0.27% | 4.42% | 0.83% | 0.68% | 0.42% | 9.26% | 70.08% | 9.26% | 20.66% | 0.05% | 2,492,151 |
| | | | | | | | | | | | 100.00% |
| | | | | | | | | | | | 347,005 |
| | | | | | | | | | | | 100.00% |

Used to allocate wholesale power demand costs to rate classes.

BLUE GRASS ENERGY COOPERATIVE

CASE NO. 2008-00011

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

REVISED SCHEDULE 9, EXHIBIT R

C. Monthly Peak Demands for Each Rate Class

| Item No. | Rate Class | Large Power | Industrial & Large Power | Service | Service | Large Power | Service | Large Power | Service | Industrial Rate | Industrial Rate | Large | Large | Power | Street Lighting | Service |
|----------|------------|-------------|--------------------------|---------|---------|-------------|---------|-------------|---------|-----------------|-----------------|-------|-------|-------|-----------------|---------|
| 33 | L | 713 | 10,822 | 2,148 | 1,881 | 1,057 | 2,741 | 24,361 | 7,284 | 207 | 2,199 | 2,142 | 2,193 | 1,801 | 1,801 | 1,801 |
| 626 | 701 | 11,131 | 2,141 | 1,809 | 1,167 | 2,667 | 24,561 | 6,955 | 202 | 2,142 | 2,193 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 626 | 701 | 11,402 | 2,394 | 1,612 | 1,074 | 2,802 | 24,810 | 7,232 | 206 | 2,193 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 594 | 594 | 12,141 | 2,350 | 1,592 | 1,042 | 2,931 | 24,602 | 7,331 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 561 | 561 | 12,840 | 2,457 | 1,554 | 1,124 | 3,076 | 25,151 | 7,586 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 553 | 553 | 12,275 | 2,335 | 1,558 | 1,087 | 3,223 | 25,207 | 7,927 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 579 | 579 | 12,526 | 2,412 | 1,483 | 1,082 | 3,252 | 26,072 | 7,780 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 729 | 729 | 14,471 | 2,646 | 1,947 | 1,326 | 3,338 | 26,280 | 8,091 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 588 | 588 | 13,965 | 2,528 | 1,746 | 1,249 | 3,322 | 26,072 | 7,733 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 688 | 688 | 13,346 | 2,387 | 1,782 | 1,164 | 3,248 | 25,714 | 7,595 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 682 | 682 | 12,196 | 2,250 | 1,929 | 1,087 | 3,074 | 25,535 | 7,119 | 189 | 2,007 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 722 | 722 | 12,235 | 2,130 | 2,033 | 1,080 | 2,901 | 25,602 | 6,994 | 170 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 | 1,801 |
| 7,738 | 7,738 | 57,442 | 28,179 | 20,925 | 13,537 | 36,576 | 303,964 | 89,627 | 22,950 | 3,034,608 | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 0.30% | 0.30% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 1.89% | 1.89% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 0.93% | 0.93% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 0.69% | 0.69% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 0.45% | 0.45% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 1.21% | 1.21% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 10.74% | 10.74% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 89.26% | 89.26% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 10.02% | 10.02% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 2.95% | 2.95% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 0.07% | 0.07% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 0.76% | 0.76% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |
| 100.0% | 100.0% | 2.21% | 1.08% | 0.80% | 0.52% | 0.00% | 0.00% | 0.00% | 0.88% | 100.00% | 22,950 | 2,159 | 2,159 | 2,159 | 2,159 | 2,159 |

Used to allocate distribution demand related costs to appropriate rate classes

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, page 67. In Section B, Transformers, the minimum cost of transformers is \$378.00. In Exhibit R, page 62, the transformer listed at that price is a 10 KV CSP size, but listed at different prices. There is a transformer listed as "10" with a price of \$267.85 and another listed as "10 KVA SP" with a price of 347.02.
- a. Explain the apparent discrepancy in transformer prices and why the 10 KVA CSP is used in Schedule 10, page 67.
- R. a. The different transformers listed are all 10 KVA transformers, but they are each a different type of transformer that have been installed on the system over the years. The 10 KVA CSP transformer was used in Schedule 10, page 67 because that is the most common type, minimum size transformer that has been used on the Blue Grass system for those particular rate classes.
- Q. b. Similarly for other sized transformers for other rate classes, there are several transformers listed in Schedule 8, page 62, but only specific transformers used in Schedule 10. Also there appear to be different transformers used for similar rate classes between Blue Grass (BG), Fox Creek (FC) and Harrison (HC). Explain the discrepancies between the two schedules and between similar rate classes.
- R. b. Blue Grass was once three different Cooperatives and each Cooperative had different descriptions on file for similar transformers and different relative costs depending on the number they may have had on the system and when the transformers may have been purchased. The rate classes for Blue Grass, Fox Creek and Harrison were similar but had different minimum demands for rates and would have a different size transformers based on these minimum requirements.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, page 69.
- a. For each rate class explain how the numbers in the Consumer Assistance column were derived and allocated.
- R. a. The numbers in the Consumer Assistance Column comes from the Consumer Records Schedule on page 70. The title of "Consumer Assistance" should read more appropriately "Consumer Records".
- Q. b. Under Meter Reading, explain how the factors were derived and why the larger rate classes have a factor of 2.00.
- R. b. The factors listed under Meter Reading are based on the type of information collected from meter reading. An energy only rate receives a factor of one (1) since energy data is the only data collected, stored, analyzed and billed. A rate class with demand and energy rates has a factor of two (2) because the amount of information collected is twice what is collected from an energy only rate class.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, page 70. Explain how the factors were derived and why this particular weighting scheme appears to be allocating a greater percentage of expenses toward the residential rate classes when compared to the other sections of Schedule 10.
- R. Page 70, Exhibit R, is a schedule that is a part of Section E. The allocation here is based on the fact that a record has to be kept for each customer including billing history, usage information, etc. For those customers where more information is used as a basis for billing, a higher factor has been assigned. For residential customers a factor of three was assigned due to the fact that those rate classes have a customer charge, and energy charge and adjustment clauses. The fact that the residential rate class may have a slightly higher allocation percentage here is just a fallout of process and analysis. Most cost-of-service studies that are conducted for Distribution Cooperatives give the benefit of the doubt to the residential customers.

RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST

- Q. Refer to Exhibit R, Schedule 10. Explain where the information in Schedule 10 is used in the cost-of-service study.

- R. The data from Schedule 10 is used to allocate the customer related costs to the various rate classes. The consumer related costs from Schedule 6 for the functions and classification are allocated to Schedule 5 based on the allocation factors from Schedule 10.

Blue Grass Energy Cooperative
Case No. 2008-00011
Second Data Request of Commission Staff

30. Refer to Exhibit S, page 1 of 4, of the application. Explain the basis for the \$625,119 adjustment to reduce the balance of the Accumulated Depreciation reserve shown on the December 31, 2007 balance sheet.

Response

This is a formula reference that should have used the normalized increase of \$973,220 as shown on Exhibit S, page 3 of 4 for Total cost of electric service.

Witness: Jim Adkins

Blue Grass Energy Cooperative
Case No. 2008-00011
Schedule of Short Term Debt
December 31, 2007

| Type of Debt Instrument (a) | Date of Issue (b) | Date of Maturity (c) | Amount Outstanding (d) | Interest Rate (e) | Annualized Cost (f) |
|--|-------------------|----------------------|------------------------|-------------------|---------------------|
| CFC | 12/22/07 | 01/18/09 | \$13,200,000 | 6.40% | \$844,800 |
| Annualized cost rate [Total col. (f) / Total col. (d)] | | | | | 6.40% |
| Actual interest paid, or accrued on Short Term Debt during the Test Year | | | | | \$478,865 |

Short term debt is issued for payments related to expenses in the ordinary course of business, the purchase power bill, material and supplies, insurance's as they come due, and construction projects, when there is insufficient funds available. The short term debt is repaid from cash generated from operations and from advances of long term debt. Since the amount of short term debt is substantially more than the revenue requested in this application (\$13.2 million short term debt and \$7.8 million rate request) it is estimated that the additional revenues will come in 1/12 each month and the short term debt is the full amount at the end of the test period. As such, it is estimated that it will take well in excess of one year to generate the funds to repay the short term debt. That is the reason the adjustment for short term interest was estimated at one-half.

Blue Grass Energy
Case No. 2008-00011
Second Data Request of Commission Staff

32. Refer to Exhibit S, page 3, and Exhibit 15, pages 2 and 3, of the application. Clarify whether the results from the end of test year customer adjustment calculations for the commercial and large power customer classes in Exhibit 15 were inadvertently omitted from the amount of the adjustment included in Exhibit S. If yes, provide a revised version of pages 2 and 3 of Exhibit S which includes the corrected amount for the end of year customer adjustment.

Response

The end of year customer adjustment was recorded properly on Exhibit S of the application as follows:

| <u>Customer Class</u> | <u>Amount</u> |
|---|----------------|
| GS-1, Residential, Farm and Non-Farm | 116,751 |
| R, Residentail | 41,107 |
| A, Farm and Home Service | 65,169 |
| C-1, Commercial and Industrial Lighting & Power | 42,126 |
| C, Small Commercial | 7,044 |
| Rate 2, Commercial and Small Power | 6,848 |
| LP-1, Large Power | 8,337 |
| L, Large Power Service (50 to 200KW) | -7,916 |
| Rate 8, Large Power Service (50 to 500KW) | 0 |
| LP-2, Large Power | 0 |
| N, Industrial & Large Power (Over 500KW) | 0 |
| LPR1, Large Power Service (Over 500KW) | 0 |
| B1, Large Industrial Rate | 0 |
| B-2, Large Industrial Rate | 0 |
| LPR2, Large Power (5,000 to 9,999KW) | 0 |
| | <u>279,466</u> |

As indicated from the above, all rate classes were considered in making the end of year customer adjustment. Therefore, there are no revised exhibits required.

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33. Refer to Exhibit X of the Application, which provides a comparison of income statement account levels for the test period and the 12 months immediately preceding the test period.

- a. Page 2 of 7 shows that account 426.30, Penalties, increased from \$0.00 in 2006 to \$297,000 in 2007. Provide a detailed description of the penalties incurred by Blue Grass which explains why the expense increased by this magnitude.

This is an EPA settlement agreement with KAEC and several utilities concerning the clean up of a dump site in the Fox Creek District. This related to the dumping of transformers in the 1950's.

- b. Page 2 of 7 also shows that Account 426.50, Other Deductions, increased by \$1,920,968, from \$1,976 to \$1,922,944 from 2006 to the 2007 test period, Provide a detailed explanation for why this expense increased by this magnitude.

This is a one time charge for the write-off of the old mechanical meters due to converting to a new digital AMR system.

- c. Page 3 of 7 shows that Account 454.00, Rent from Electric Property, decreased by \$258,111 from \$1,057,426 to \$799,315 from 2006 to the 2007 test period. Provide a detailed explanation for why this revenue account decreased by this magnitude.

When we converted to the new mapping system in 2006, it was discovered that several pole attachments from the telephone companies and cable companies had not been reported to us for billing purposes. This was a back-billing for a prior period recorded in 2006.

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- d. Page 4 of 7 shows that Account 583.00 overhead Line Expense increased by \$101,201 from \$853,676 to \$954,877, from 2006 to 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

This was mostly due to an increase in property tax expenses and the allocation change due to the change in miles of line as reported by the new mapping system.

- e. Page 4 of 7 also shows that Account 586.00 meter expense increased by \$223,942 from \$529,011 to \$752,953 from 2006 to 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

The Special Equipment labor credit allocating labor from the installation of meters purchased to plant was \$235,000 less in 2007 because most of the new meters being installed was purchased in 2006.

- f. Page 4 of 7 also shows that Account 593.00, Maintenance Overhead Lines, increased by \$285,861, from \$1,133,262 to \$1,419,123 from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

The majority of the increase is due to a Pole Treatment program started in 2007 and an increase in maintenance labor and expenses.

- g. Page 4 of 7 also shows that Account 593.10, Maintenance of Right of Way, increased by \$436,762 from \$1,678,657 to \$2,115,439 from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

Right of Way maintenance expense had continued to decrease to assist in maintaining a required TIER required by RUS. A decision was made to increase Right of Way in 2007 to maintain a 5 year trim cycle.

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- h. Page 5 of 7 shows that Account 594.00, Maintenance Underground Lines, increased by \$41,524 from \$183,200 to \$224, 724, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

There was a substantial increase in the request for locating underground meters for members due to converting to the 811 system.

- i. Page 5 of 7 also shows that Account 902.00, Meter Reading Expense, decreased by \$253,872, from \$380,511 to \$126,639 from 2006 to the 2007 test period. Given Blue Grass's implementation of its Automated Meter Reading System (AMR), provide the meter reading expense for the first four months of 2008 and explain whether Blue Grass expects that an annual level of expense comparable to its 2007 level will continue in the future.

The meter reading expense for the 1st 4 months is \$25,510. I expect the level of meter reading expense not to exceed 2007 as we go into the future. The AMR installation was completed in June 2007.

- J. Page 5 of 7 also shows that Account 912.30, Member Services Public Relations, increased by \$286,954, from \$59,888 to \$346,843, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

Blue Grass did not receive EKPC partners plus incentives in 2007 compared to 2006 which resulted in an increase in expense. We also incurred cost for the Washington Youth Tour in 2007. We did not have participants in 2006.

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- K. Page 6 of 7 shows that Account 920.00, Administrative & General Expenses, increased by \$198,570 from \$1,905,864 to \$2,104,434, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

We had a substantial increase in training due to the implementation of the Culture Development Program and training on the Balance Scorecard in 2007. Also, in 2007 labor and benefits increased due to the hiring of a new Member Services Vice President in June 2006. We only had 6 months expense in 2006.

- l. Page 6 of 7 also shows that Account 930.60, Annual Meeting Expense, increased by \$41,864 from \$108,921 to \$150,786 from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

In order to improve our attendance at the annual meeting we allocated more labor and benefits to work additional booths and activities. This is reflected in the number of members attending. This was slightly less than 2006 which was a record attendance. It is substantially higher than previous years excluding 2006.

- m. Page 7 of 7 shows that Account 932.00, Maintenance of General Plant, increased by \$68,097, from \$397,767 to \$465,863, from 2006 to the 2007 test period. Provide a detailed explanation for why this expense increased by this magnitude.

We had an increase in maintenance cost at the Fox Creek District Office. Substantial maintenance was performed on the geothermal system. New tile and carpet was installed in the entire office.

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34. Refer to Exhibit 3 of the application, which supports the proposed adjustment to depreciation expense and which includes the Blue Grass depreciation study prepared by Jim Adkins Consulting.

a. Page 1 of 6.1 shows the entry to record the meters retired in 2007 due to Blue Grass implementing its AMR. Describe the manner of disposal of the retired meters (scrapped, sold, etc.) and explain why \$258,132.65 worth of "Meters AMR" was retired.

Response

These were meters in the Harrison District that were inherited prior to the consolidation. These meters were of a different technology that did not conform to the present AMR system.

b. Page 1 of 6.1 indicates that the accumulated depreciation account for meters did not contain sufficient reserve to retire the meters through the reserve. Cite the applicable provisions of the RUS Uniform System of Accounts which support the account approach utilized by Blue Grass.

Response

The Uniform System of Accounts prescribes that the original cost, removal cost and salvage be recorded in the associated accumulated depreciation account. However, since there are no assets to record depreciation against the accumulated depreciation account after the retirement of meters, the balance was written-off.

Blue Grass notified RUS both in the year end Form 7 and in the letter referenced in Exhibit H-1, page 6 of 9, in the application.

c. Page 2 of 6.1 shows the test tear-end plant account balances, the existing and proposed depreciation rates, the test-year depreciation expense, and the normalized depreciation expense based on the proposed depreciation rates. Provide a schedule showing what the "normalized" level of depreciation expense would be based on the test year-end plant account balances and the existing depreciation rates.

| Response | | | | | | |
|-----------------|---------------------------|----------------------|-------------|--------------------|-------------|--------------------|
| Account | Test Year | Proposed | Normalized | Existing | Normalized | Existing |
| <u>Number</u> | <u>Description</u> | <u>Balance</u> | <u>Rate</u> | <u>Expense</u> | <u>Rate</u> | <u>Expense</u> |
| 362 | Station equipment | \$1,663,354 | 4.17% | \$69,362 | 8.33% | \$138,557 |
| 364 | Poles, towers & fixtures | 44,666,314 | 3.30% | 1,473,988 | 3.50% | 1,563,321 |
| 365 | Overhead conductors & d | 36,480,849 | 4.05% | 1,477,474 | 2.56% | 933,910 |
| 367 | Underground conductor & d | 9,278,853 | 4.88% | 452,808 | 2.65% | 245,890 |
| 368 | Line transformers | 27,349,503 | 2.63% | 719,292 | 2.86% | 782,196 |
| 369 | Services | 23,497,881 | 5.08% | 1,193,692 | 3.35% | 787,179 |
| 370 | Meters | 362,427 | 4.55% | 16,490 | 3.14% | 11,380 |
| 370.10 | Meters, AMR | 6,200,800 | 6.67% | 413,593 | 3.14% | 194,705 |
| 371 | Installations on customer | 3,992,823 | 3.23% | 128,968 | 4.15% | 165,702 |
| 373 | Street lights | <u>2,245,830</u> | 4.35% | <u>97,694</u> | 5.00% | <u>112,292</u> |
| | | <u>\$155,738,634</u> | | <u>\$6,043,362</u> | | <u>\$4,935,131</u> |

d. Page 5 of 6.1 shows the test year beginning balances in the plant accounts, the additions, retirements and transfers that occurred during the test year, and the test year ending balances in the plant accounts. Describe the nature of the transfers and explain why they occurred.

Response

The AMR meters were not originally recorded in a subaccount of meters and equipment located in substations to communicate with the AMR meters. The transfers occurred to record AMR meters in a separate account and record the equipment located at the substations in the proper account.

e. Refer to the first paragraph on the first page of the "Scope" section of the depreciation study. The latter part of the paragraph discusses the impacts of the conversion to the record unit basis for continuing property records ("CPR") which occurred in the mid 1980's. Clarify whether the last sentence in the paragraph means that plant additions and retirements prior to the conversion were recalculated based on the same ratios that were used for post-conversion plant recalculations.

Response

That is correct. The additions and retirements were recalculated using the same ratio as the post-conversion additions and retirements.

f. The second paragraph of the "Scope" section refers to vintage accounting and the fact that vintage accounting records were not maintained for mass plant items. Therefore, the depreciation study used the technique of creating simulated plant records on a vintage basis. Provide a detailed explanation for why vintage records are "desirable" or "beneficial" in preparing a depreciation study. In other words, explain why the depreciation study was not, or could not, be prepared based on the actual plant accounts as recorded and maintained in Blue Grass's accounting system.

Response

Blue Grass' accounting system is not maintained on a vintage plant account basis since the computer vendor does not have that capability. The depreciation study was prepared based on the actual plant accounts, as adjusted for the conversion to the record unit basis for CPRs, as recorded and maintained in Blue Grass's accounting system.

Vintage accounting is a system where plant is accounted for by year of installation and its life is tagged, and accounted for, until plant is retired.

g. Refer to the last two sentences of the first paragraph on the second page of the "Scope" section, which indicate that the cost of removal and salvage were allocated to plant accounts based on percentages reflecting salvage and the cost of removal at Blue Grass for a 10-year period. Refer to Section 9 of the depreciation study, which indicates that net salvage rates have been calculated based on salvage data for the last 5 years. Explain the discrepancy between these two sections of the depreciation study.

Response

The net salvage for the past 10 years was used to calculate the Net Salvage Ratio in Section 9. The net salvage ratio was used to allocate the net salvage amount for the past 5 years to arrive at the net salvage percent for that component of the depreciation rate.

h. Refer to the next-to-last paragraph on the second page of the "Scope" section of the study. Provide a thorough discussion of the judgmental factors mentioned and a list of the electric cooperatives referenced in the last sentence of the paragraph. The cooperative list should include the names of the individuals contacted and, for any not regulated by this Commission, the contact's phone number.

Response

AMR technology has not been used long enough to develop either vintage or simulated lives. Therefore, estimated lives are required for this new technology.

| | |
|---------------------|-----------------|
| Big Sandy RECC | David Estepp |
| Clark Energy | Holly Eades |
| Grayson RECC | Don Combs |
| Jackson Energy | Mark Keene |
| Licking Valley RECC | Sandra Bradley |
| Meade County RECC | Karen Brown |
| Nolin RECC | O.V. Sparks |
| Salt River Electric | J. Edward Boone |
| Taylor County RECC | John Patterson |

i. Refer to the third numbered paragraph on the third page of the "Scope" section. Has Blue Grass sought RUS approval of those proposed depreciation rates which exceeded the upper end of the RUS range? If no, when does Blue Grass expect it will seek RUS approval? Include any correspondence with RUS concerning the proposed depreciation rates.

Response

The depreciation study has been sent to RUS. At this time, there has been no response from RUS. If RUS sends any correspondence regarding the study during this application, it will be forwarded to the Commission.

j. Refer to the last paragraph on the third page of the "Scope" section. Provide a list of the factors and assumptions mentioned in the first sentence of the paragraph along with a brief description of each such item.

Response

Inquiries as to whether any changes are anticipated for pole, conductor, meters, transformers, or other plant items for additions or retirements. Other than normal activity, the only significant activities are the AMR meters as discussed previously in this Data Request.

Right of way is attempting to get on a ⁵6 year cycle. No significant changes in the method of clearing and spraying are anticipated.

k. Refer to the first page of the study immediately following the "Scope" section, which is headed "Mortality Characteristics - Distribution Plant" and which shows the proposed average service lives and net salvage factors. Provide the existing average service lives and net salvage factors.

Response

~~This is the first depreciation study for Blue Grass Energy. Therefore,~~ there are no existing average service lives or net salvage factors.

l. Refer to Section 9 of the depreciation study which shows the proposed net salvage ratios. Provide a narrative description, along with any related workpapers, spreadsheets, etc. that show how these net salvage ratios were derived.

Response

Calculations are attached.

Blue Grass Energy

Blue Grass Energy - Case No. 2008-00011

Calculation of Net Salvage Ratios

| | 364 | 365 | 367 | 368 | 369 | 370 | 371 |
|-------------|-----------|-----------|---------|-------------------------|-----------|---------|---------|
| 1985 | 205,663 | 94,084 | 20,132 | 82,696 | 48,582 | 33,211 | 6,910 |
| 1986 | 265,591 | 110,205 | 2,031 | 35,744 | 68,078 | 13,260 | 14,344 |
| 1987 | 372,253 | 152,463 | 6,409 | 37,637 | 78,586 | 28,255 | 13,572 |
| 1988 | 275,964 | 90,474 | 3,546 | 99,788 | 63,795 | 24,298 | 17,568 |
| 1989 | 311,671 | 131,401 | 24,527 | 83,416 | 78,625 | 34,170 | 23,624 |
| 1990 | 490,006 | 187,694 | 71,530 | 55,340 | 111,971 | 35,472 | 30,827 |
| 1991 | 412,655 | 151,629 | 11,236 | 64,761 | 83,707 | 37,345 | 31,170 |
| 1992 | 420,041 | 138,019 | 23,945 | 88,860 | 96,746 | 31,997 | 23,915 |
| 1993 | 311,148 | 134,359 | 9,355 | 223,148 | 103,306 | 19,656 | 27,060 |
| 1994 | 420,935 | 183,861 | 30,825 | 142,445 | 109,529 | 31,434 | 36,832 |
| 1995 | 467,121 | 261,936 | 41,181 | 134,689 | 111,287 | 65,866 | 28,475 |
| 1996 | 366,706 | 163,020 | 17,044 | 99,930 | 95,613 | 42,575 | 27,225 |
| 1997 | 335,532 | 248,266 | 79,570 | 162,260 | 130,164 | 17,478 | 28,697 |
| 1998 | 348,395 | 253,068 | 34,875 | 43,382 | 210,141 | 53,183 | 30,257 |
| 1999 | 407,402 | 302,439 | 21,330 | 94,429 | 250,837 | 109,434 | 34,052 |
| 2000 | 284,127 | 178,210 | 51,553 | 303,323 | 180,846 | 17,214 | 43,693 |
| 2001 | 521,291 | 405,779 | 31,503 | 248,188 | 225,267 | 23,405 | 33,668 |
| 2002 | 253,106 | 136,999 | 77,812 | 323,634 | 252,784 | 22,401 | 41,622 |
| 2003 | 264,941 | 241,858 | 40,625 | 179,260 | 283,965 | 11,530 | 62,173 |
| 2004 | 514,416 | 586,184 | 70,098 | 39,806 | 320,032 | 32,367 | 43,140 |
| 2005 | 288,256 | 278,472 | 84,718 | 587,423 | 420,813 | 217,930 | 27,142 |
| 2006 | 387,558 | 508,926 | 39,780 | 379,788 | 357,526 | 392,500 | 45,379 |
| 97 - 2006 | 3,605,024 | 3,140,201 | 531,864 | 2,361,493 | 2,632,375 | 897,442 | 417,048 |
| Net salvage | | | | | | | |
| Percent | 55% | 45% | 25% | 0% | 40% | 0% | 35% |
| Amount | 1,982,763 | 1,413,090 | 132,966 | 0 | 1,052,950 | 0 | 145,967 |
| | | | | Theoretical net salvage | | | 472,774 |
| | | | | Per General Ledger | | | 471,810 |
| | | | | Difference | | | (964) |

Blue Grass Energy Cooperative
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35. Refer to Exhibit 4, page 8 of 8, of the application, the Analysis of Other Operating Taxes. The item shown on lines 15-19 is identified as the Public Service Commission ("PSC") assessment, but the PSC assessment is based on revenues, not property values, which is the basis for the assessment shown on lines 15-19.

a. Provide a revised page 8 of 8 which correctly identifies the item shown on lines 17-19.

Response

This was mislabeled only. Should state "Public Service Company" property tax.

b. Explain why Blue Grass has not proposed an adjustment for the PSC assessment based on its proposed rate increase of \$7.8 million and the current assessment rate.

Response

This was an oversight only. The adjustment would be as follows:

| | | |
|----------------------------|------------|-------------------|
| Total intra state revenues | | 89,360,905 |
| Power cost | 66,355,815 | |
| less one-half | 50% | <u>33,177,908</u> |
| Assessable revenues | | 56,182,998 |
| Assessment | | 95,848 |
| Rate | | 0.17060% |
| Proposed increase | | 7,838,023 |
| Proposed adjustment | | 13,372 |

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36. Refer to Exhibit 5 of the application and Item 6(b). of the response to the initial data request of the Commission Staff. The response states that Blue Grass's short-term debt is shown in Exhibit 5 of the application; however, Exhibit 5, which consists of 3 pages, includes only Blue Grass's long-term debt. Provide the short-term debt information as requested in the Staff's initial data request.

Response

Blue Grass regrets this oversight. The information is shown in Exhibit 31 of this response to the Commission.

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37. Refer to Exhibit 5 of the application.

a. Explain how it was determined that the proposed revenue increase would be sufficient to allow Blue Grass to repay approximately one-half of the short-term note payable.

Response

In addition to the proposed revenue requested, Blue Grass advanced \$12 million of long-term advances from RUS during April, 2008. It was originally estimated that the advance would be around the middle of the year, which would reduce short term interest by one-half.

b. Provide an update of the schedule on pages 2 and 3 that reflects the current interest rates for long-term debt applied to the long-term debt balances as of the end of the proposed test year.

Response

Attached.

Blue Grass Energy
Case No. 2008-00011
Schedule of Outstanding Long-Term Debt
December 31, 2007

Exhibit 5
page 2 of 3
Format 8a
Schedule 2

| Type of Debt Issued (a) | Date of Issue (b) | Date of Maturity (c) | Outstanding Amount (d) | Test Year Interest Cost (e) | Cost Rate to Maturity (f) | Annualized Cost Col (d)x(g) (j) |
|----------------------------------|----------------------------|-------------------------------|------------------------------|--------------------------------------|---------------------------------------|--|
| RUS loans | | | | | | |
| B2190 | Dec-72 | Dec-07 | 2,313 | 155 | 2.000% | 46 |
| B280 | Aug-95 | Jul-30 | 939,047 | 54,569 | 5.750% | 53,995 |
| B281 | Aug-95 | Jul-30 | 315,176 | 19,104 | 6.000% | 18,911 |
| B285 | Aug-95 | Jul-30 | 849,274 | 47,219 | 5.500% | 46,710 |
| B286 | Aug-95 | Jul-30 | 390,438 | 20,240 | 5.125% | 20,010 |
| B520 | Jan-95 | Dec-29 | 1,247,482 | 72,530 | 5.750% | 71,730 |
| B530 | Jun-98 | May-33 | 4,446,458 | 224,463 | 5.000% | 222,323 |
| B531 | Jun-98 | May-33 | 4,012,925 | 147,313 | 3.370% | 135,236 |
| B870 | Sep-04 | Aug-39 | 7,819,553 | 285,904 | 3.620% | 283,068 |
| B872 | Sep-04 | Aug-39 | 10,789,187 | 461,931 | 3.500% | 377,622 |
| B873 | Sep-04 | Aug-39 | 4,908,834 | 222,451 | 4.250% | 208,625 |
| B874 | Sep-04 | Aug-39 | 5,208,357 | 188,722 | 4.120% | 214,584 |
| B890 | Apr-08 | Apr-43 | 12,000,000 | 0 | 3.630% | 435,600 |
| | | | <u>52,929,044</u> | <u>1,744,601</u> | | <u>2,088,460</u> |
| FFB loans | | | | | | |
| H0010 | Feb-99 | Jan-34 | 5,521,562 | 284,064 | 5.077% | 280,330 |
| H0050 | Feb-99 | Jan-34 | 11,672,054 | 569,740 | 1.338% | 156,172 |
| H0055 | Jun-00 | May-35 | 2,709,821 | 134,494 | 4.906% | 132,944 |
| H0070 | Jun-00 | May-35 | 11,880,307 | 579,093 | 1.338% | 158,959 |
| H0075 | Apr-05 | Mar-40 | 3,053,186 | 151,852 | 4.904% | 149,728 |
| | | | <u>34,836,930</u> | <u>1,719,243</u> | | <u>878,132</u> |
| CFC loans | | | | | | |
| 9001 | Mar-74 | Feb-09 | 14,935 | 1,654 | 7.00% | 1,045 |
| 9004 | Mar-75 | Feb-10 | 24,533 | 1,667 | 5.65% | 1,386 |
| 9005 | Sep-76 | Aug-11 | 84,973 | 6,572 | 6.95% | 5,906 |
| 9006 | Jun-78 | May-13 | 270,485 | 20,300 | 7.00% | 18,934 |
| 9007 | Sep-80 | Aug-15 | 390,838 | 23,188 | 5.65% | 22,082 |
| 9008 | Dec-82 | Nov-17 | 275,340 | 19,919 | 7.00% | 19,274 |
| 9009 | Sep-84 | Aug-19 | 585,774 | 36,742 | 7.00% | 41,004 |
| 9010 | Mar-89 | Feb-24 | 1,249,286 | 78,692 | 7.10% | 88,699 |
| 9011 | Jun-95 | May-30 | 1,099,030 | 68,671 | 7.10% | 78,031 |
| 9013 | Dec-73 | Nov-08 | 5,459 | 560 | 7.00% | 382 |
| 9014 | Dec-74 | Nov-09 | 27,142 | 2,328 | 7.00% | 1,900 |
| 9015 | Mar-76 | Feb-11 | 73,782 | 5,808 | 6.95% | 5,128 |
| 9016 | Jun-78 | May-13 | 200,391 | 13,098 | 6.10% | 12,224 |
| 9017 | Mar-80 | Feb-15 | 220,124 | 16,199 | 7.00% | 15,409 |

Blue Grass Energy
Case No. 2008-00011
Schedule of Outstanding Long-Term Debt
December 31, 2007

Exhibit 5
page 2 of 3
Format 8a
Schedule 2

| Type of Debt Issued | Date of Issue | Date of Maturity | Outstanding Amount | Test Year Interest Cost | Cost Rate to Maturity | Annualized Cost Col (d)x(g) |
|-------------------------------------|---------------|------------------|--------------------|-------------------------|-----------------------|-----------------------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 2018 | Dec-84 | Nov-19 | 193,603 | 13,902 | 7.00% | 13,552 |
| 9019 | Dec-86 | Nov-21 | 188,825 | 13,678 | 7.10% | 13,407 |
| 9020 | Mar-91 | Feb-26 | 469,120 | 33,741 | 7.10% | 33,308 |
| 9021 | Dec-94 | Nov-29 | 529,864 | 30,273 | 5.65% | 29,937 |
| 9024 | Jun-72 | May-07 | 6,239 | 822 | 7.00% | 437 |
| 9026 | Dec-73 | Nov-08 | 10,864 | 1,115 | 7.00% | 760 |
| 9027 | Mar-75 | Feb-10 | 19,305 | 1,312 | 5.65% | 1,091 |
| 9028 | Dec-75 | Nov-10 | 75,920 | 4,928 | 5.65% | 4,289 |
| 9029 | Jun-77 | May-12 | 114,320 | 7,073 | 5.65% | 6,459 |
| 9030 | Jun-79 | May-14 | 168,330 | 10,100 | 5.65% | 9,511 |
| 9031 | Mar-81 | Feb-16 | 219,188 | 12,958 | 5.65% | 12,384 |
| 9032 | Jun-83 | May-18 | 149,529 | 8,736 | 5.65% | 8,448 |
| 9033 | Jun-85 | May-20 | 211,875 | 12,292 | 5.65% | 11,971 |
| 9034 | Dec-87 | Nov-22 | 233,725 | 13,478 | 5.65% | 13,205 |
| 9035 | Sep-89 | Aug-24 | 413,947 | 23,797 | 5.65% | 23,388 |
| 9036 | Dec-93 | Nov-28 | 741,513 | 42,404 | 5.65% | 41,895 |
| 903705 | Aug-03 | May-08 | 552,265 | 30,055 | 3.65% | 20,158 |
| 903706 | Aug-03 | May-09 | 1,094,587 | 44,878 | 4.10% | 44,878 |
| 903707 | Aug-03 | May-10 | 1,094,587 | 47,615 | 4.35% | 47,615 |
| 903708 | Aug-03 | May-11 | 1,094,587 | 50,898 | 4.65% | 50,898 |
| 903709 | Aug-03 | May-12 | 1,094,587 | 53,087 | 4.85% | 53,087 |
| 903710 | Aug-03 | May-13 | 1,094,587 | 55,277 | 5.05% | 55,277 |
| 903711 | Aug-03 | May-14 | 1,094,587 | 57,466 | 5.25% | 57,466 |
| 903712 | Aug-03 | May-15 | 1,094,587 | 58,013 | 5.30% | 58,013 |
| 903713 | Aug-03 | May-16 | 1,094,587 | 59,108 | 5.40% | 59,108 |
| 903714 | Aug-03 | May-17 | 1,094,587 | 58,560 | 5.35% | 58,560 |
| 903715 | Aug-03 | May-18 | 1,094,587 | 59,655 | 5.45% | 59,655 |
| 9037020 | Aug-03 | May-08 | 322,926 | 17,574 | 3.65% | 11,787 |
| 9037021 | Aug-03 | May-09 | 640,039 | 26,242 | 4.10% | 26,242 |
| 9037022 | Aug-03 | May-10 | 640,039 | 27,842 | 4.35% | 27,842 |
| 9037023 | Aug-03 | May-11 | 640,039 | 29,762 | 4.65% | 29,762 |
| 9037024 | Aug-03 | May-12 | 640,039 | 31,042 | 4.85% | 31,042 |
| 9037025 | Aug-03 | May-13 | 640,039 | 32,322 | 5.05% | 32,322 |
| 9037026 | Aug-03 | May-19 | 273,647 | 15,872 | 5.80% | 15,872 |
| 9037027 | Aug-03 | May-19 | 273,647 | 16,090 | 5.88% | 16,090 |
| 9037028 | Aug-03 | May-19 | 273,647 | 16,173 | 5.91% | 16,173 |
| 9037029 | Aug-03 | May-19 | 273,647 | 16,255 | 5.94% | 16,255 |
| | | | <u>24,384,103</u> | <u>1,329,793</u> | | <u>1,323,547</u> |
| Total long term debt and annualized | | | <u>112,150,077</u> | <u>4,793,637</u> | | <u>4,290,139</u> |

Annualized cost rate [Total Col. (j) / Total Col. (d)] 3.83%
Actual test year cost rate [Total Col (k) / Total Repor 4.27%

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38. Refer to Exhibit 7 of the application. Provide the derivation of the test-year retirement and security contributions of \$888,107 shown in the same manner as was done to derive the proposed contributions of \$1,030,325.

Response

| | |
|---|-----------------------|
| Total wages: | |
| Salary employees | 2,383,604 |
| Hourly employees | <u>3,305,954</u> |
| | 5,689,558 |
| Retirees during the year | 182,726 |
| Employees over 30 years in plan: Nos. 1111; 2504; 3320; 3360; 3500; 3504; 3511; 3512; 3513 | <u>576,709</u> |
| Wages subject to R & S | 4,930,123 |
| | |
| Contribution rate for 2007 | <u>18.02%</u> |
| | |
| Test year contributions | <u><u>888,408</u></u> |

Wage rate increases during the year will result in wages being more than the actual test year since the eligible wages are entered at the beginning of the year and are used for the entire year. Changes are made during the year for employees that become eligible and those that either are over 30 year's in the plan or are retired or terminated during the year.

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39. Refer to Exhibit 8 of the application.
- a. Provide a detailed description of the Circumstances regarding the \$285,000 EPA payment related to the Tindle site.

Refer to question 33 part a.
 - b. Provide a detailed description of Blue Grass's policies regarding jury duty payments to its employees.

See attached is Policy No. 4-7, section A. 2.
 - c. Describe, generally, the nature of, and circumstances leading to, Blue Grass's work orders abandoned and explain whether the amount in the proposed test year is typical for a 12-month period.

This is when a job is staked for a member and then the member decides that they do not want the service. At that point the time spent on the job is abandoned. This amount is typical for a 12-month period.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

POLICY NO. 4-7

AUTHORIZED LEAVE WITH OR WITHOUT PAY

I. OBJECTIVE

The Cooperative recognizes that circumstances beyond the control of the employee may necessitate absence from duty. The purpose of this policy is to outline the conditions under which an employee may request time off with or without pay.

II. POLICY CONTENT

A. Exercising Citizen Obligations

1. The Cooperative will grant any employee sufficient time off, without pay, to go to the polls to vote in any municipal, school, county, state or national election. The employee's Immediate Supervisor shall approve scheduling of time off for voting.
2. In the event an employee is required to serve jury duty or is subpoenaed to appear as a witness in a state or federal court or administrative tribunal, as required by law, he/she shall be paid for the time away from the Cooperative at his/her regular rate. Overtime will not be paid even though the employee may serve in a capacity more than eight hours. Employees serving on jury duty may also keep any pay received for service as a juror. In all cases, when an employee who is serving a citizen's obligation is excused from service, he/she will immediately report to work for his/her regular duties.
3. Employees who are required to appear in court on their own behalf may use vacation time for such duty.

B. Funeral or Other Emergency Leave

1. In the event of a death occurring within the employee's immediate family (spouse, children, grandchild, sister, brother, parents, grandparents, daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, brother-in-law, step-relatives in these relationships or any relative residing in the employee's household), an employee may be granted time off as required to a maximum of three (3) days without loss of pay or sick leave accumulation.
2. An employee serving as a pallbearer or attending the funeral for a relative other than in the employee's immediate family will be granted time off, not to exceed eight hours, at his/her regular pay rate.
3. Other emergencies requiring that the employee be absent during regular working hours may be charged to vacation time. The Cooperative will show every

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40. Refer to Exhibit 9 of the application.
- a. Describe the routine, normal work performed for Blue Grass by Combs & Hoffman and by Howard Downing and provide a detailed explanation for why Blue Grass has need to engage more than one law firm for continuing monthly legal services. Explain in detail why the Commission should allow expenses for payments to both firms for rate-making purposes.

Since we had 3 cooperatives consolidate into one, using 2 different legal firms is appropriate for the amount of legal work needed. Howard Downing is very familiar with the original Blue Grass Energy's legal issues historically as well as knowledge of the Blue Grass service territory. He performs work for the Board and staff that relate to regulatory and financial issues such as (RUS) Work Plans and Loans, annual meeting, PSC cases, Easements, and other Board and management issues as they arise. He is located in the local area which is cost effective. Ralph Combs who is very familiar with Fox Creek's legal issues historically as well as knowledge of that service area. He also performs work for the Board and management when requested but it is normally more day to day legal activities such as problems with collections, customer disputes and engineering issues as they arise. His fees are based on an hourly charge and he is located in that area which makes it cost effective. Both Firms have represented Blue Grass Energy extremely well and is committed to serving the Blue Grass Board and Management team for any legal issue that may arise. These expenses should be allowed for rate making purposes.

- b. Describe the nature of the work performed during the test year by Ronald Van Stockum, jr. in the amount of \$12,769, which is identified as "Tindle Site legal services" and why it could not have been performed by Combs & Hoffman or by Howard Downing. Does Blue Grass consider this a normal, recurring expense item? Explain the response?

Ronald Van Stockum is an experience attorney in EPA issues. His work and expertise is spent in the field of environmental law. He also represented KAEC in this issue as well so it was cost effective to share his services. We do not consider this a normal item but we do have another EPA issue that is being reviewed in the Madison County area.

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- c. Describe the nature of the expenditures totaling \$1,600 paid to HR Enterprises, Inc. achiever test and achiever reports.

This is routine tests for new employees prior to being hired by HR.

- d. Describe the nature of Blue Grass's connection for the Goodyear dump site for which it paid Greenbaum, Doll & McDonald \$3,021 for legal services during the test year. Does Blue Grass consider this a normal, recurring expense item. Explain the response.

This is for legal work due to the EPA notifying Blue Grass Energy about another dump site in Madison County similar to the Tindle Site situation. At this time it is still being determined if we have any liability. We used this firm because the Cooperatives involved needed an expert in environmental laws and needed to coordinate their responses to the EPA . It was cost effective to share the same legal firm. We do not consider this a normal item but we did have another issue in the Fox Creek District.

- e. Blue Grass paid the firm of Patterson & Dewar, Inc. \$2,952 during the test years for services related to Administrative Case No. 2006-00494, which was an administrative case concerning distribution reliability and reliability maintenance practices. Does Blue Grass consider the work performed by Patterson & Dewar, inc. to represent a normal, recurring item of expense? Explain the response.

No, this is not a normal recurring item.

- f. Blue Grass incurred expenses totaling \$2,945 for amounts paid to permadoc for "A/P micro filming" in three payments over a period of roughly three weeks. Describe the nature of the micro filming work performed by permadoc and explain whether blue Grass considers this to be a normal, recurring expense.

This is a normal recurring expense. We microfilm our A/P documents annually for storage and retrieval purposes.

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g. Is the \$18,000 cost incurred during the proposed test year the full cost of the depreciation study performed by Jim Adkins Consulting? If no, what was the full cost and when were the additional costs incurred?

Response

Yes, this is the full cost for the depreciation study.

h. In other cooperative rate cases the cost of their depreciation studies have been amortized over 5 years for rate-making purposes. Explain whether Blue Grass believes that the cost of the current depreciation study should be similarly amortized for rate-making purposes.

Response

Blue Grass agrees with the 5 year amortization for the depreciation study costs.

j. Blue Grass paid Shelton Communications \$29,925 for "Creative and Strategic Services - Rate Increase Campaign." Describe the nature of the services provided by Shelton Communications and explain whether blue Grass considers this to be a normal, recurring expense.

Response

The Shelton Group was selected to assist Blue Grass with marketing recommendations for demand side management programs, automated meter reading, on-line bill tracking, budget billing, in-home energy audits, automated payments, and other programs. This was done in conjunction with East Kentucky's rate increase. This program will provide education to members the above options and the wise use of energy. Blue Grass will also use this educational process with its rate increase. Blue Grass will continue to use the Shelton Group in the future.

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- i. Blue Grass paid Fisher Consulting Group \$28,128 during the test year for “Culture Assessment Training”. Describe the nature of the services provided by Fisher Consulting Group and explain whether Blue Grass considers this to be a normal, recurring expense.

This will be a normal recurring expense. We plan on having, annually, some type of employee development training program. This program relates to strategic planning in preparing and engaging our employees to become the best that they can be. All employees are required to participate. It will result in improved employee skills, improved customer service and improved financial condition.

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41. Refer to Exhibit 10 of the application which details the adjustments proposed for director expenses.

a. Refer to pages 2-12. Explain whether, during the test year, any director was designated to be the primary representative or the alternate to represent Blue Grass with either the Kentucky Association of Electric Cooperatives ("KAEC") or the National Rural Electric Cooperative Association ("NRECA").

Response

| | |
|-----------------|------------|
| KAEC delegate | Jane Smith |
| KAEC, alternate | Dan Brewer |

| | |
|------------------|-----------------|
| NRECA delegate | Gary Keller |
| NRECA, alternate | Zeb Blankenship |

b. Explain whether Blue Grass was aware that it has been Commission policy to allow expenses for KAEC or NRECA meetings for rate-making purposes only for attendance by a cooperative's designated representative or its designated alternate representative. Explain in detail why the Commission should allow such expenses for other directors in this case.

Response

Expenses for directors that attended the KAEC annual meeting that were not the designated representative or alternate, have been removed from this application.

The NRECA annual meeting is a combination of training and education seminars for directors during the day and more organizational activities in the evenings. These programs are similar to the education seminars that NRECA sponsors at the Director Conferences and Regional Meetings. As such, these costs and expenses should be included for rate making purposes for all directors that attend the NRECA annual meeting.

c. Describe the nature of the "CFC Financial Forum" and explain why it was necessary that four of the ten directors attend. Explain whether Blue Grass considers this to be a normal, recurring expense.

Response

Director training about financial and tax issues directly affecting the electric industry. This should be included for rate-making purposes since information obtained will assist in making more informed decisions.

The CFC Financial Forum is held on an annual basis, with Blue Grass' directors attending on an annual basis. Therefore, this will be recurring.

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42. Refer to exhibit 11 of the application.

a. Refer to pages 3 through 6.

1. Describe the nature of the \$1,682.75 expenditure identified as “50% deposit 10” cold air balloon” paid to ARBC.

The cold air balloon was cost-shared with Inter-County Energy. It will be used by us and Inter-County at various community events which may include but not limited to customer Appreciation Events, annual meetings and other community activities.

2. Explain whether the amount of \$5,678.46 paid to ARBC for “Bulbs customer appreciation days” is the cost of light bulbs provided to customers and whether the bulbs were incandescent or compact fluorescent bulbs.

These were the compact fluorescent lights (CFL) used in an effort to promote energy efficiency and Green Power. We distributed these to members in conjunction with other utilities to promote the campaign fluorescent Fridays in October 2007.

3. Describe the purpose for blue Grass spending \$501.21 for 150 pocket diaries.

This was for employees and directors of Blue Grass Energy.

4. Describe the nature of the contract advertising in the amount of \$4,360 paid to WDKY FOX 56 and explain whether Blue Grass considers this to be a normal recurring expense.

This is a normal recurring expense. It is to promote safety and energy efficiency.

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b. Refer to page 7.

1. Describe "MHRA Membership" and explain why the amount of \$136.40 was paid to Nolin Rural Electric Cooperative Corporation.

We cost shared the membership with Nolin RECC to help support the manufactured Homes program as part of Touchstone Energy.

2. Describe the benefit blue Grass's customers receive for the \$590 paid to the Home builders Association for "Officer Installation Dinner and Membership Renewal

We support and promote Touchstone Energy home programs and are a very active member in the Home Builders Association. We had an employee who was appointed as a director to the HBA. This provides opportunities to promote Touchstone energy homes, energy efficiency, and energy conservation to Builders, developers and contractors.

3. Describe the nature of "Individual Custom Messages" for which Blue Grass paid \$640.90 to Image Marketing International and explain how this benefits its customers.

These are customized on hold messages which promote energy saving tips and safety information to our members.

- c. 1. Describe "Office Notice Advertising" for which Blue Grass energy paid Bellsouth \$693.28 and explain how this advertising benefits the customer.

This was a legal notice for EKPC rate increase pass through to our members. This vendor is the Herald Leader instead of Bellsouth.

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2. Describe the nature of the "1/2 Page Color Assessment" paid to Lanham Media Services LLC and explain how this expenditure benefits Blue Grass's customers.

This advertisement in Georgetown/ Scott County community profile magazine for Economic Development

3. Describe the nature of the "Poster Grip Frame" for which Blue Grass paid East Kentucky Power Cooperative, In.c \$177.55 and explain how this expenditure benefits Blue Grass's customers.

These were signs used at our drive-thru windows promoting energy efficiency and safety.

4. Describe the nature of the various expenditures identified as "foreign directory charges" "white pages foreign directory listing" or foreign directory" and explain how these expenditures benefit Blue Grass's customers.

These are all yellow page and white page listings in the various telephone directories listed in the county directories that we serve. This is for our members benefit in contacting us.

5. Describe the nature of the numerous expenditures identified as "directory advertising and explain how "directory advertising differs from "directory listing".

These are the same as listed in no. 42.b4.

6. Describe the nature of the three expenditures identified as "Broadcast Spots" for which Blue Grass paid \$4,917 to WTVQ-TV and WDKY Fox 56 and explain how these expenditures benefit Blue Grass's customers.

These messages promote safety and energy efficiency to our members.

Exhibit 42

Page 4 of 4

Witness: Donald Smothers

7. Describe the nature of the expenditure identified as “House Premier Advertising” for which Blue Grass paid \$1,200 to WKDY Fox 56 and how this benefits Blue Grass’s customers.

This was cost shared with other Cooperatives to promote safety and energy efficiency to our members.

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43. Refer to pages 11 through 14.
- a. Explain why expenditures of \$24.43 and \$314.29 for “Employee shirt Order” were not eliminated for rate-making purposes when 16 other expenditures for “Employee Shirt Order” were so eliminated.

They were missed and should be eliminated.
 - b. Describe the nature of the expenditure of \$578.76 for 89 “Auburn Anorak Jackets” paid to Perryville Embroidery and explain how this expenditure benefits Blue Grass’s customers.

This was some expenses for the Key Accounts Conference which promotes our relationship with our commercial members.
 - c. Describe the nature of the expenditure of \$1,060 for “20 Dale Hammond LTD Books” paid to Texas electric Cooperative and explain how this expenditure benefits Blue Grass’s customers.

These books are about the industry and was given as retirements gifts for some operations personnel.
 - d. Describe the nature of the expenditure of \$765.33 for “home & garden show shirts” paid to Lands end business Outfitter and explain how this expenditure benefits Blue Grass’s customers.

This was for our employees who worked the Home & Garden Show to present a professional and unified appearance in promoting energy efficiency benefits of the Touchstone Energy Home.

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44. Refer to page 15.

a. Describe the benefit Blue Grass's customers receive for the \$620 paid to the Home Builders Association for "Membership Dues."

Response

Blue Grass sends an employee to each of the regularly schedule homebuilders association meetings. This employee informs builders of the energy efficiency standards necessary to meet the "Energy Star" standards established by the EPA to both new and existing homes. Conservation and efficiencies benefit all customers of Blue Grass.

b. Describe the benefit Blue Grass's customers receive for the \$330 paid to the Madison County Home Builders Association for "Membership Dues."

Response

Same as "a." above for the Madison District.

c. Describe the benefit Blue Grass's customers receive for the \$1,050 paid to the National Food & Energy Council for "Membership."

Response

This membership allows Blue Grass employees the opportunity to attend seminars and receive literature from the National food & Energy Council ("NF&EC"). The NF&EC is an association that offers strategies and goals to service key accounts, industrial customers and farms for providing safety education, energy efficiencies and conservation services.

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45. Refer to pages 16 and 17.
- a. Describe the nature of the two \$721.90 payments to Pro-Bots Promotional Robots described as “deposit 2007 Annual Meeting” and “Robot Rental” and explain how these expenditures benefit Blue Grass’s Customers.
- To help promote an increase in attendance and excitement of attending the annual meeting.
- b. Describe the nature of the payment of \$1,219.88 to Ipromoteu, Inc. for “700 flying disks, 1,000 balloons” and explain how this expenditure benefits Blue Grass’s customers.
- To help promote an increase in attendance and excitement for the children who attend the annual meeting.

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46. Refer to Exhibit 13 of the application, which shows the estimate of Blue Grass's expenses associated with this rate case. On a monthly basis, beginning with May 2008, provide the amount of Blue Grass's actual rate case expenses, by category, as done with the estimate.

Response

Blue Grass has closed its books through April 2008. There are no rate case expenses recorded through this period. Blue Grass will provide, on a monthly basis these expenses starting in May 2008.

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47. Refer to Exhibit 16 of the application, which shows the amount of the proposed increase based on attaining a TIER of 2.0x.

a. Describe the methodology employed by Blue Grass in determining that 2.0x was the appropriate TIER on which to base its requested rate increase.

Response

A TIER of 2.0 will allow Blue Grass to increase its margins, which will result in an increase in equity ratio. This increase will allow Blue Grass to meet its mortgage requirement for TIER and DSC and, hopefully, provide funds sufficient to refund capital credits to members.

b. Is Blue Grass aware of any studies performed by RUS or the National Rural Utilities Cooperative Finance Corporation ("CFC") on the subject of the appropriate TIER level for an electric distribution cooperative? If yes, identify the studies and when they were performed.

Response

Blue Grass is not aware of any studies by either RUS or CFC that addresses an appropriate TIER level. Both have minimum requirements in their mortgage agreement. CFC will periodically address equity levels, but does not give a specific level that is appropriate, but gives ranges. This is generally about 35%.

c. Blue Grass's request in this case for a 2.0x TIER would produce net margins of roughly \$4.8 million. For each of the 5 calendar years immediately preceding the 2007 test year, provide the approximate net margins that would have been realized if Blue Grass had achieved a TIER of 2.0x.

| Response | Net |
|-----------------|----------------|
| <u>Year</u> | <u>Margins</u> |
| 2006 | 4,420,976 |
| 2005 | 3,488,700 |
| 2004 | 2,744,950 |
| 2003 | 2,900,592 |
| 2002 | 3,007,137 |